



# Arizona Economic Forecast

prepared for:

## SENATE AD HOC TASK FORCE ON FOREST MANAGEMENT

*August 28, 2008*

*Office of the Arizona State Treasurer*  
*Treasurer Dean Martin*



HON. DEAN MARTIN, TREASURER      OFFICE OF THE ARIZONA STATE TREASURER



*All state funds must be  
deposited at  
Treasurer's Office*

*FY 08 total was:*

***\$39.10 Billion***



HON. DEAN MARTIN, TREASURER      2      OFFICE OF THE ARIZONA STATE TREASURER



## Inside the Trading Room A Day In the Life...



- Last Business Day 2006 \$2.3 Billion in cash
- Example of one trade of over 300 trades executed
  - Out to bid for overnight repo (loan collateralized by US Treasuries)
  - 12/29/06 to mature on 1/2/07
  - The bid winner sent us \$2.346 Billion in US Treasuries
  - 1/2/07 received \$2.3 Billion back
  - We were paid \$1.3 million in interest!









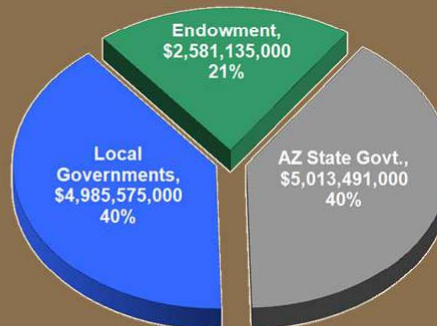
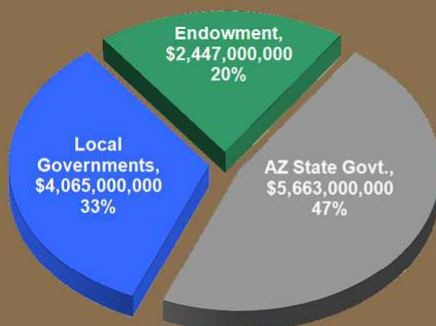


HON. DEAN MARTIN, TREASURER    4    OFFICE OF THE ARIZONA STATE TREASURER

**Assets Under Management**  
**(market value)**

**June 2007 - \$12.17 Billion**

**June 2008 - \$12.58 Billion**



***\$1 Billion in additional Voluntary Investments!***



## Our Investment Philosophy

**SAFETY**  
before  
**LIQUIDITY**  
before  
**YIELD**





## *Treasurer's FY 08 Performance*

Operating Revenue to the State of Arizona  
State Agencies, Endowment and LGIP Clients

Fiscal Year 2008 Earnings Distributed:

**\$502,385,363**

vs. FY07

\$484,148,689

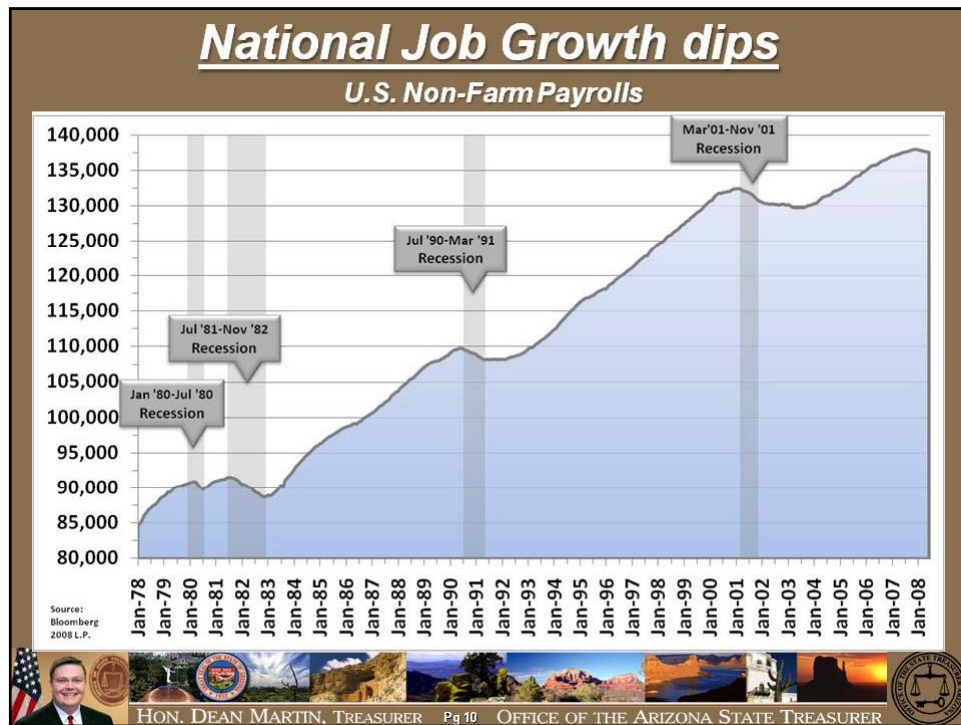
**UP 3.8%**



## *Economic Outlook*







## Housing & Construction Outlook

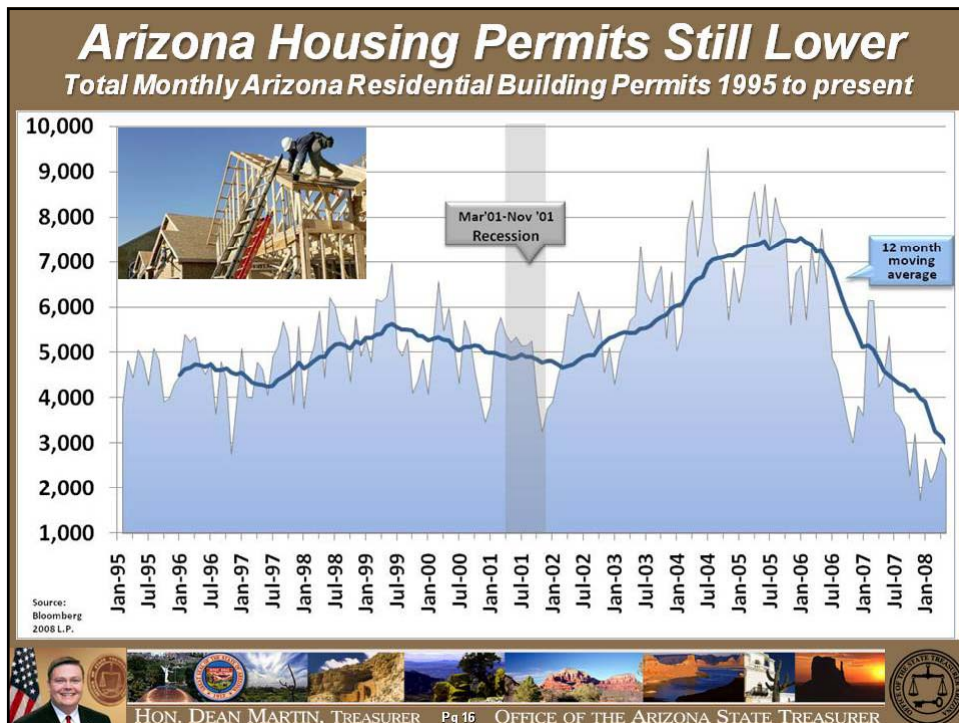
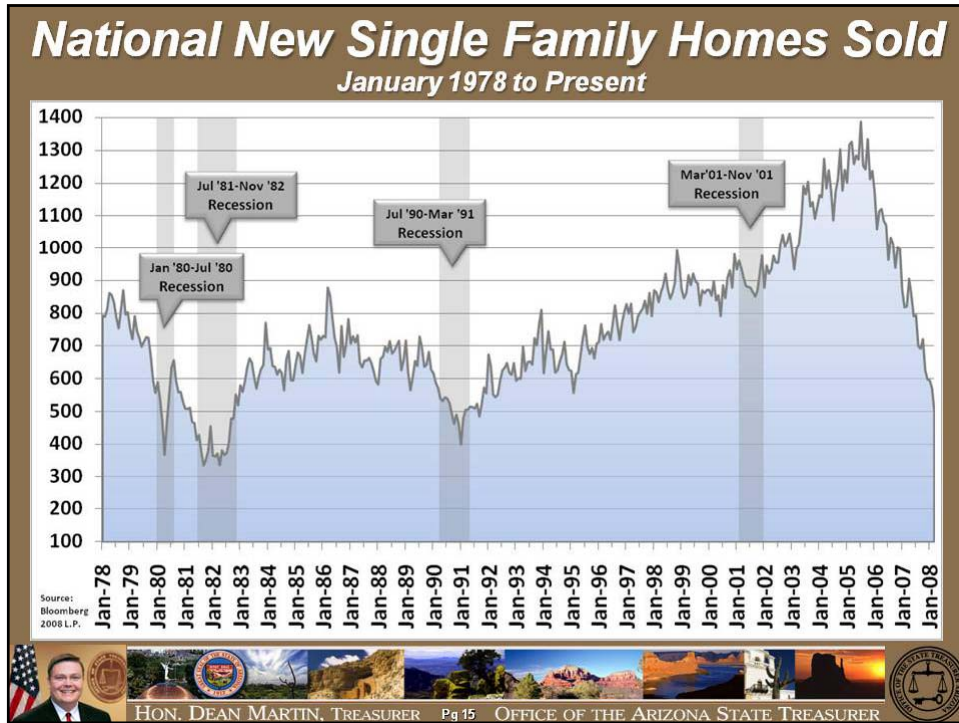


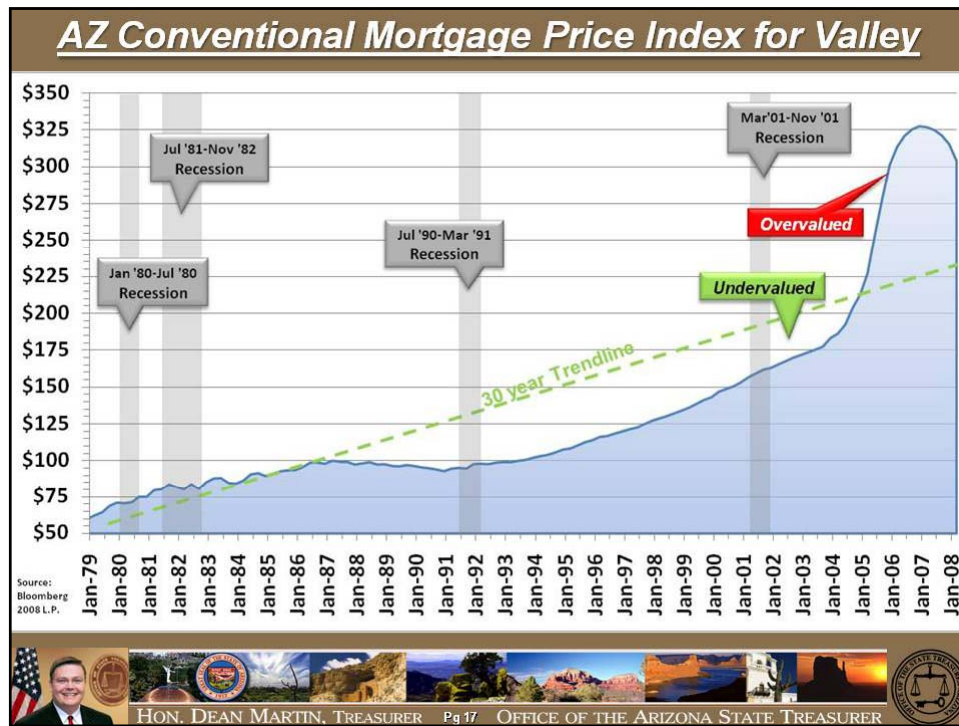
## AZ Construction Employment Still Dropping







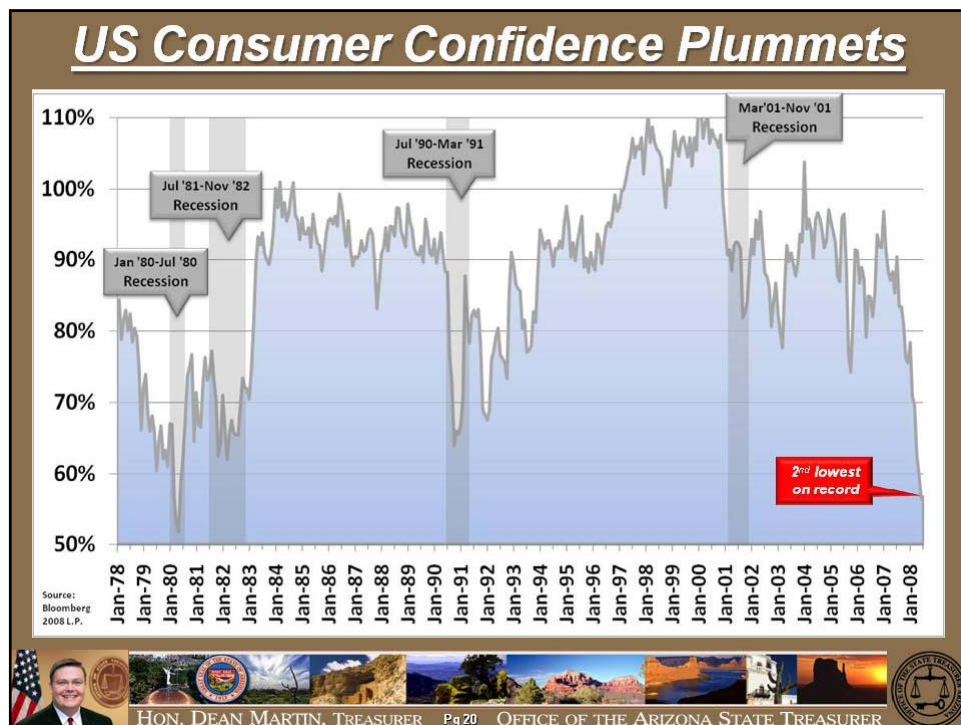




## Consumer Confidence

### Consumers Worrying, Some Sweating

HON. DEAN MARTIN, TREASURER Pg 18 OFFICE OF THE ARIZONA STATE TREASURER

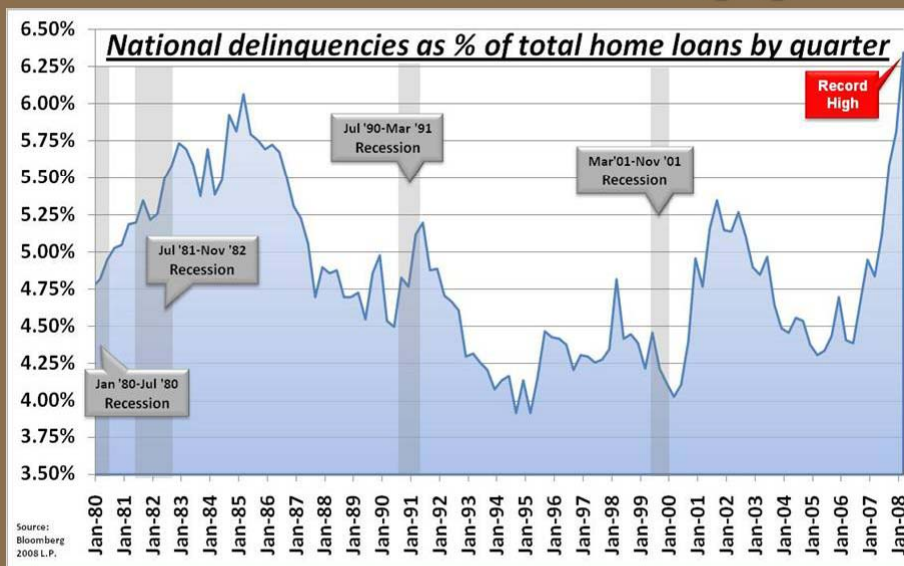




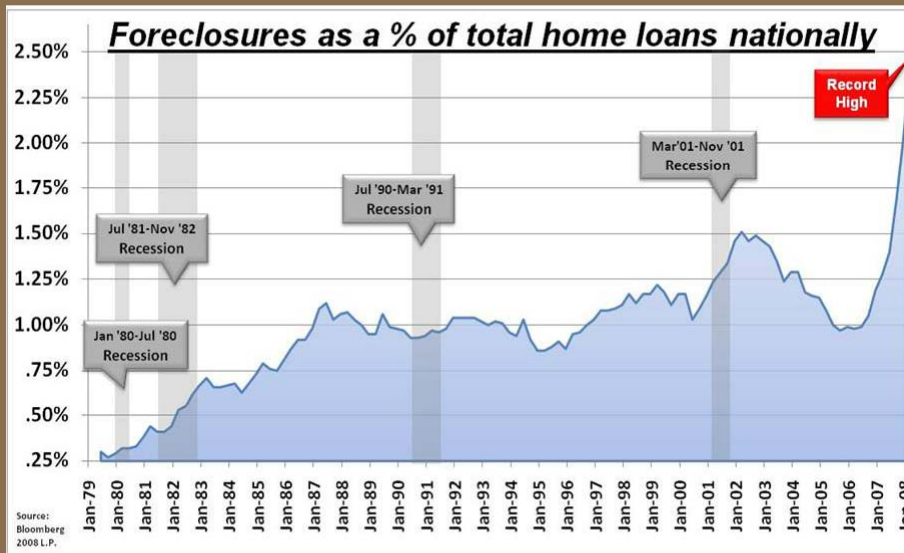
## Housing: Nervous Neighbors



## Consumers Behind on Mortgages

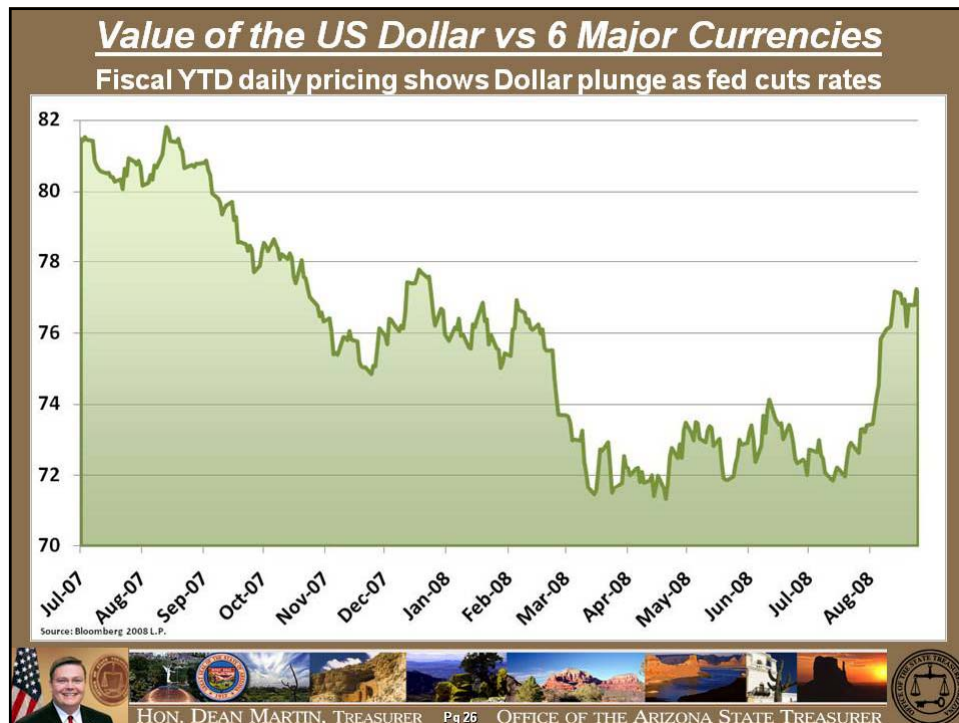
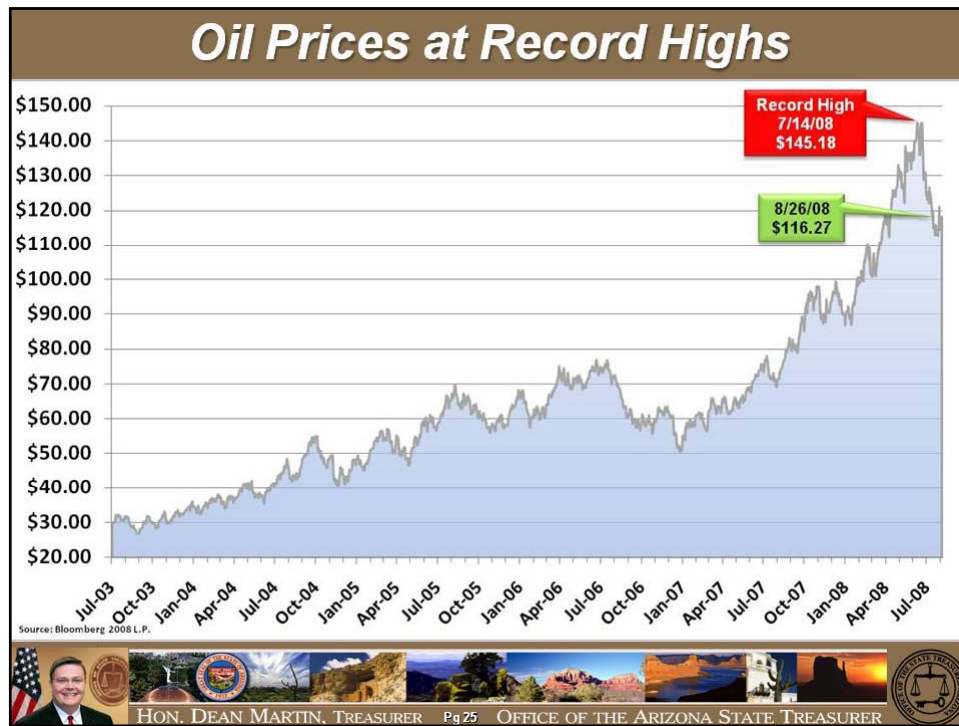


## Consumers Walking Away from Homes

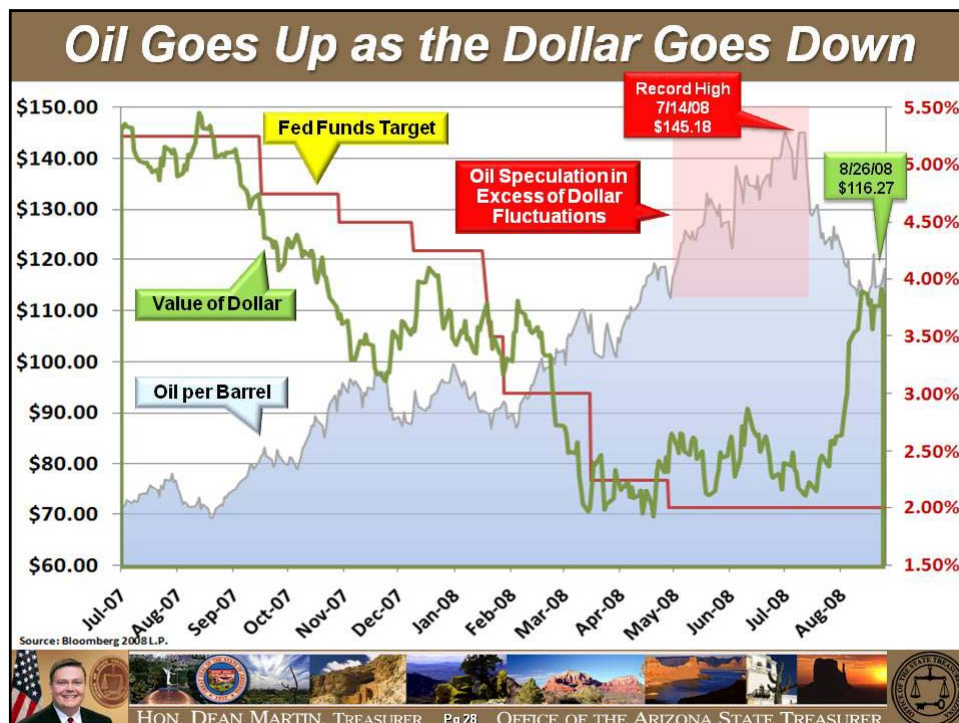


## Oil Prices at Record Highs Driving Consumer Confidence Lower Inflation Higher











**TREASURER  
DEAN MARTIN  
CERTIFIED**

*Quick and Easy  
Economic Gauge*

**MATH NOT  
REQUIRED!**



HON. DEAN MARTIN, TREASURER 29 OFFICE OF THE ARIZONA STATE TREASURER



*Watch your local  
Starbucks*



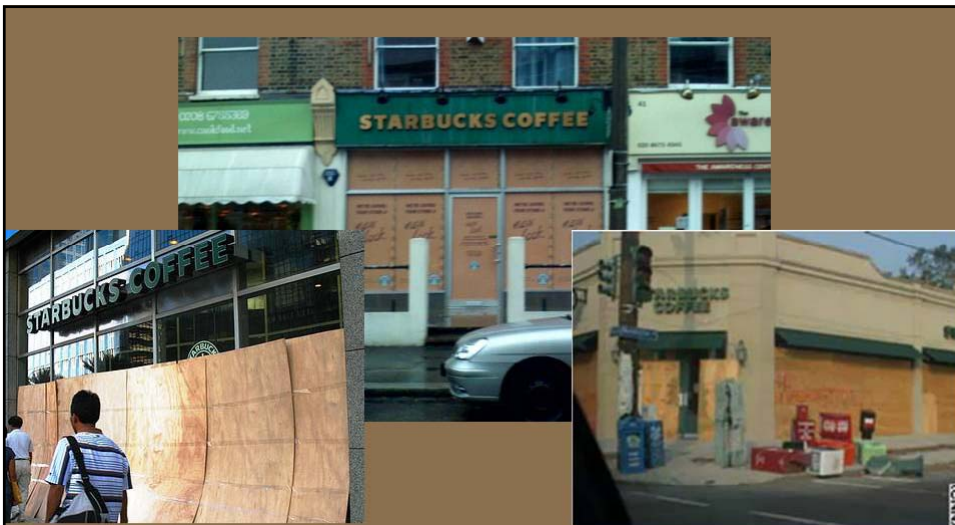
HON. DEAN MARTIN, TREASURER 30 OFFICE OF THE ARIZONA STATE TREASURER



*As long as people are still buying  
\$4 cups of coffee:  
They still have disposable income*



***Mild Recession***

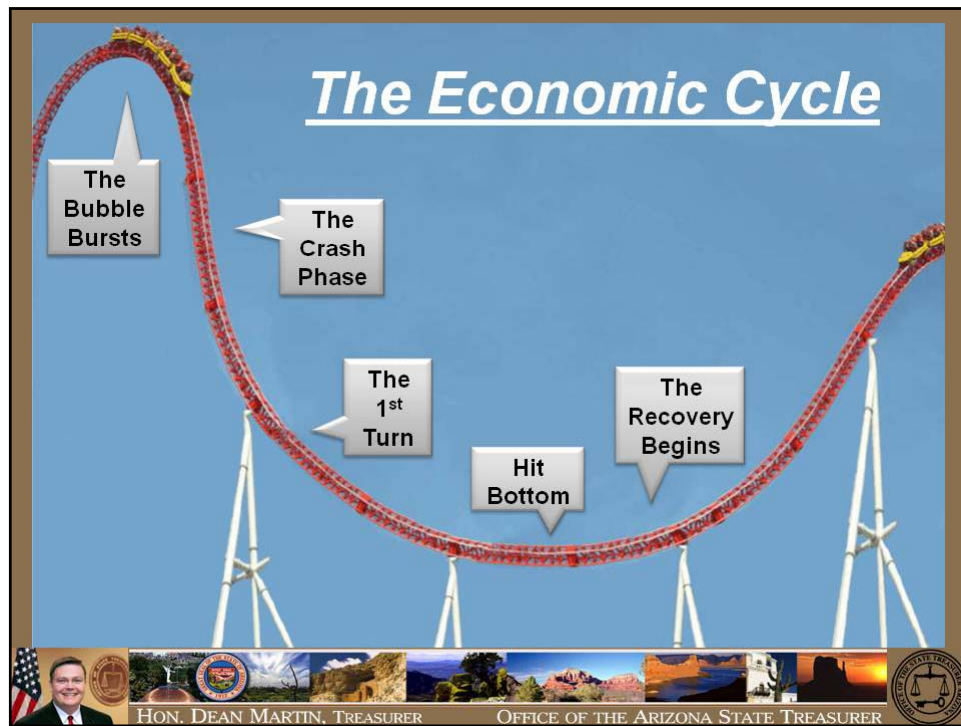


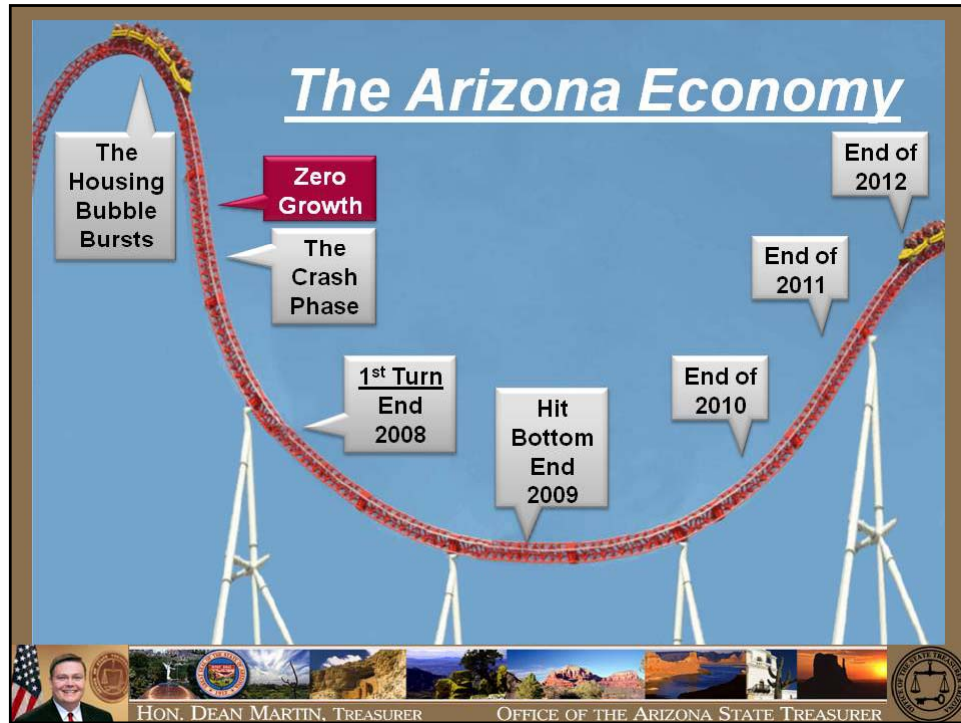
***Moderate to Severe Recession***





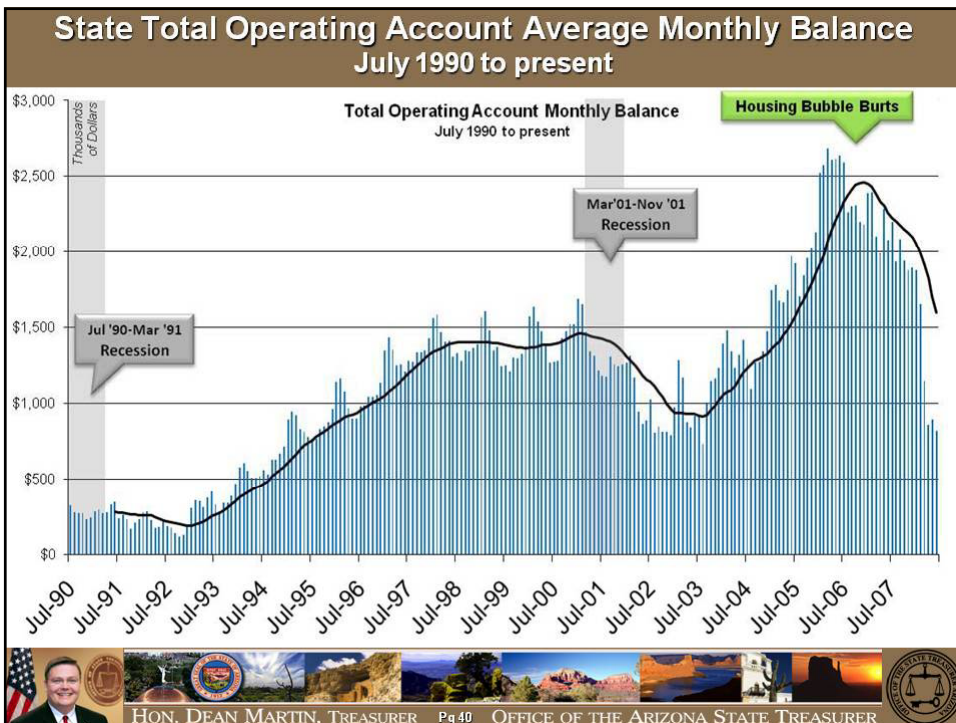
**People can't buy a 99¢ cup of coffee:**

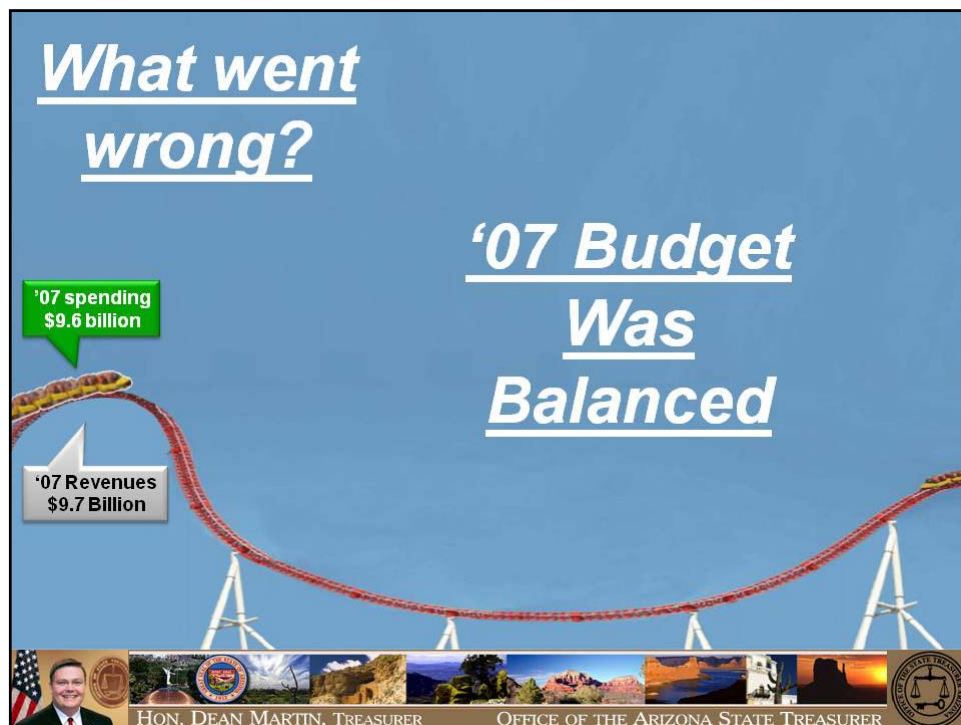
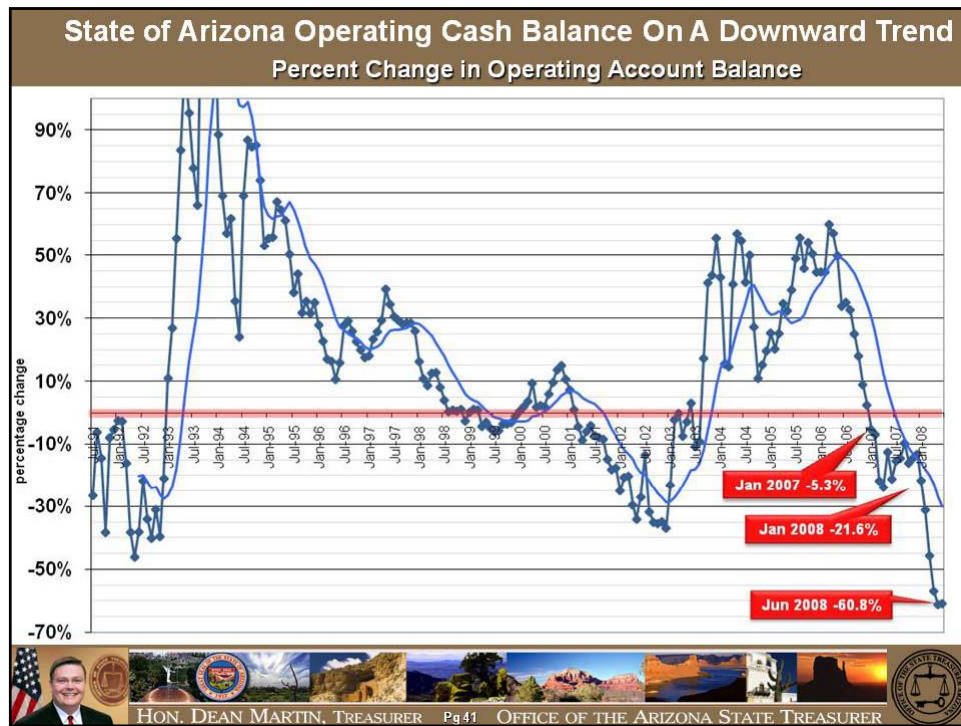


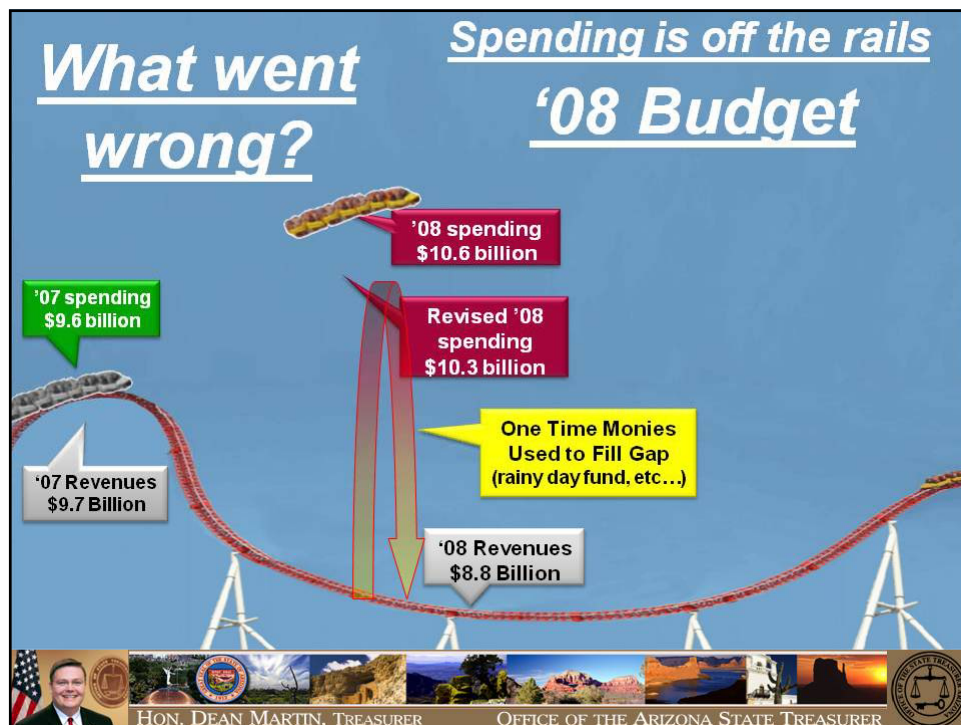
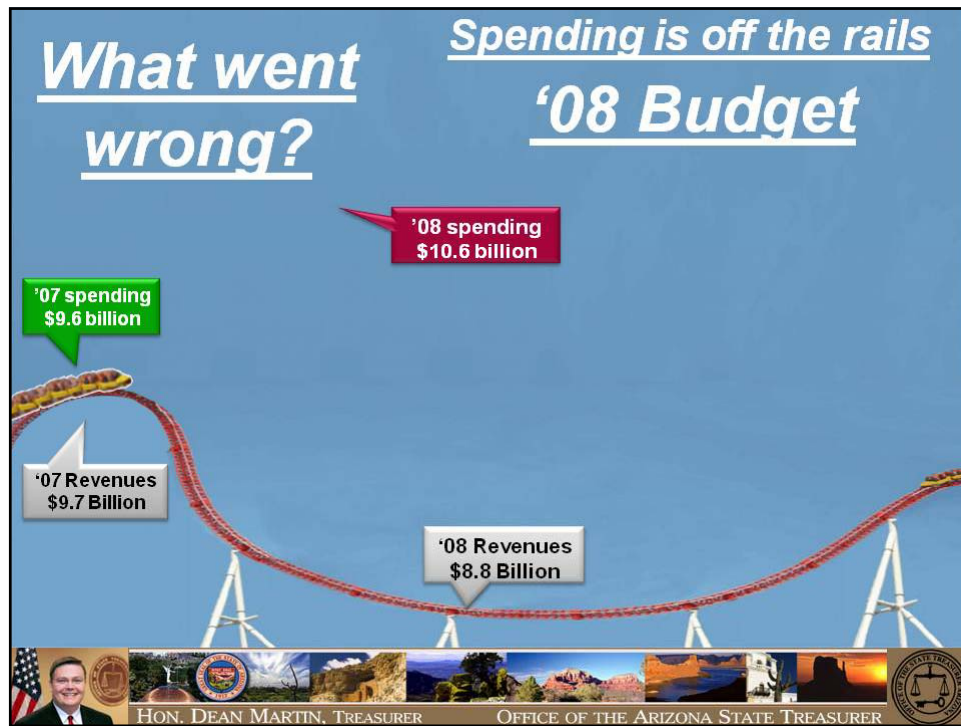




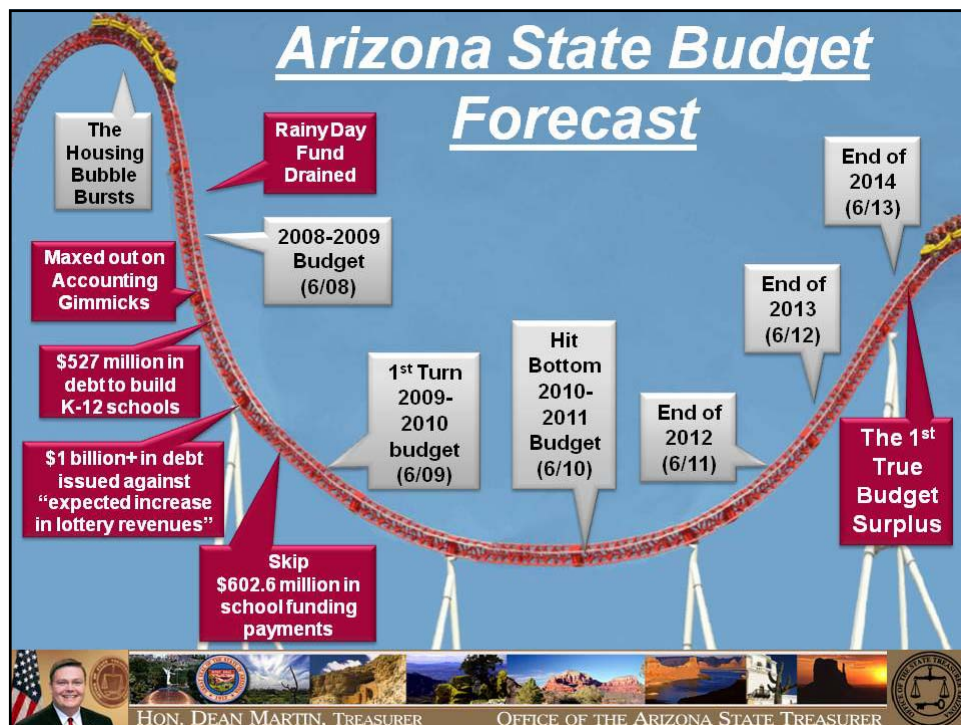
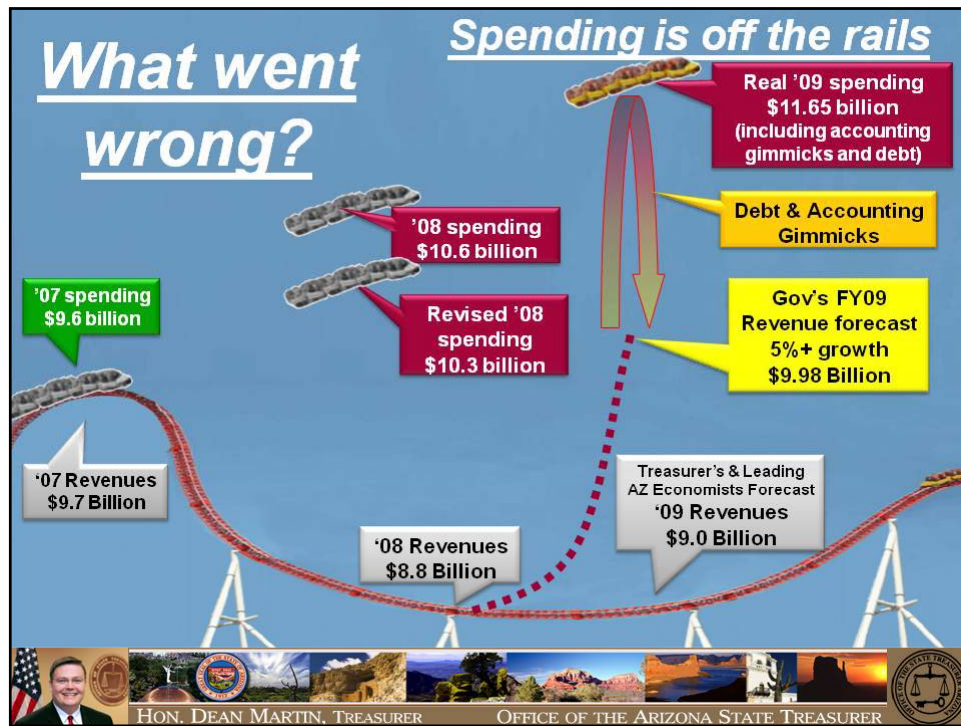
# State Budget Update











***So how do we get out of  
this mess?***



***So how do we get out of  
this mess?***

**When you are  
in a hole, the  
first rule is to  
stop digging!**



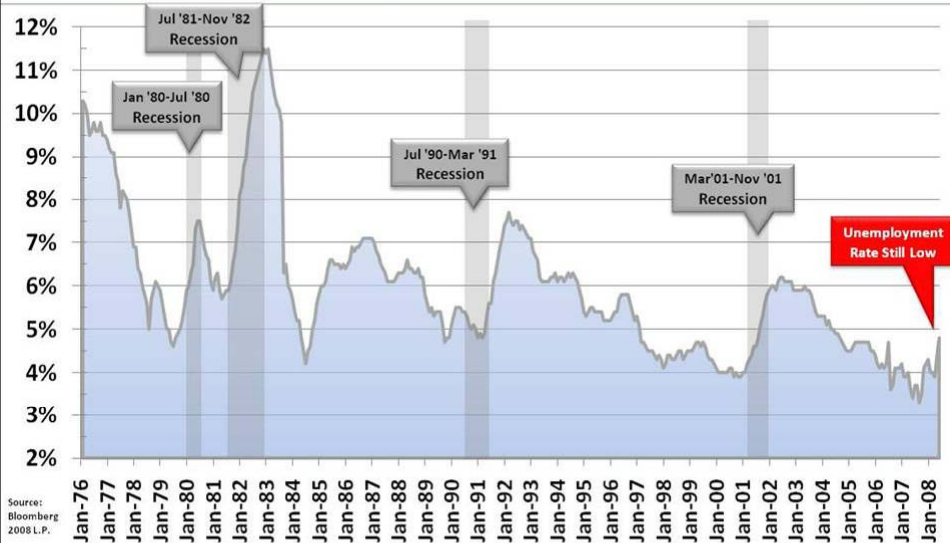
# So how about some good news?



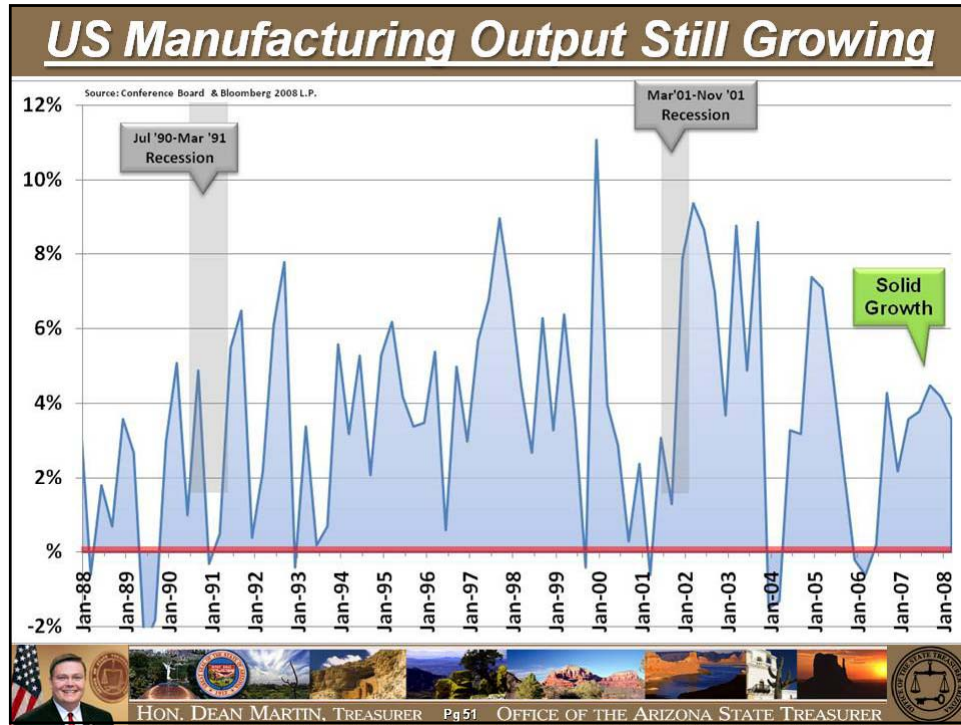
I just saved a  
bunch of money on  
my car insurance!



## AZ Unemployment Rate Still Low





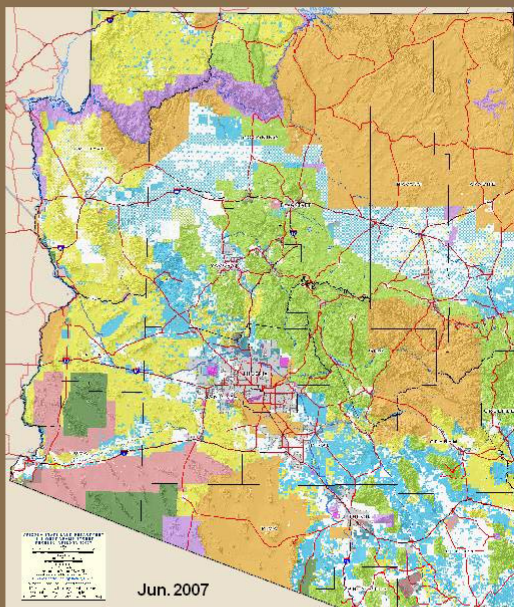






## Arizona Land Endowment

- State Trust Lands in **light blue**
- 10.9 million acres given to the territory of Arizona in 1912 by the Federal Government at statehood in the Enabling Act as an endowment.
- Treasurer and the Board of Investment are the Guardians of the Endowment serving as the Constitutional Trustees of all proceeds from State Trust Lands deposited into the Endowment.



## Arizona Land Endowment

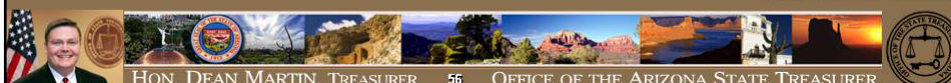
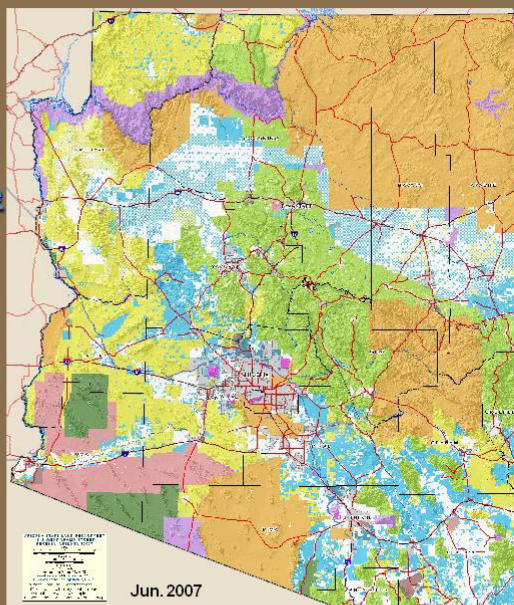
- 9,26 million acres remaining State Trust Lands in **light blue**
- Urban Acres – 700,000
- Rural Acres – 8,562,781

### Current Estimated Value

- Urban \$100,00 Acre
- Rural \$1,000 Acre

### Total Est. Value of Trust

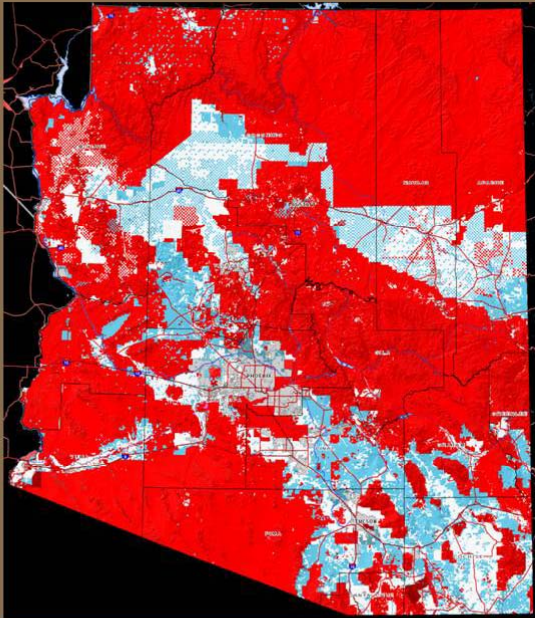

**\$78,562,781,000**






**Government  
Owned  
Non-Taxable  
Property in  
RED**

**Only 17.6% of  
Arizona Land  
Is Privately  
Held**

HON. DEAN MARTIN, TREASURER 57 OFFICE OF THE ARIZONA STATE TREASURER

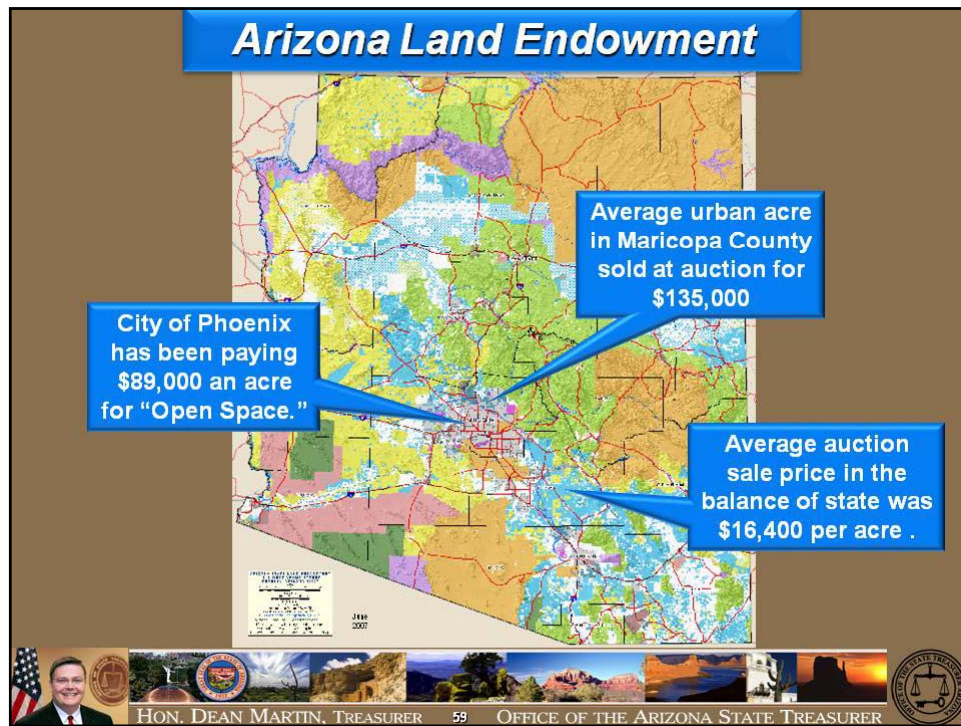
***Parcels are Identified  
for Lease or Sale  
By State Land Dept.***



***Public  
Auction Held  
(Highest Bidder Wins)***




HON. DEAN MARTIN, TREASURER 58 OFFICE OF THE ARIZONA STATE TREASURER







## Classroom Site Fund

- Class Size Reduction
- Teacher Pay Raises
- Teacher Training
- AIMS Assistance
- Dropout Prevention Programs

62



## Back to School Cash

### K-12 Education Endowment Distributions

- FY08 Distributions

# •\$69,300,000



- Extra education funding equal to:

# •\$1,430.00

**Per classroom** (based on 20 student class size)



























HON. DEAN MARTIN, TREASURER Pg 63 OFFICE OF THE ARIZONA STATE TREASURER

## *Analysis of impact of Prop. 103 on the State Land Trust Endowment*





# **Proposition 103**



REMOVED FROM BALLOT  
 FOR INSUFFICIENT  
 SIGNATURES



HON. DEAN MARTIN, TREASURER 64 OFFICE OF THE ARIZONA STATE TREASURER

### Proposition 103

#### Article X Sections 1.1 & 12 created

- “Lands held in trust by the State of Arizona... designated as permanent conservation lands.”
- Approximately 570,000 acres of trust land as permanent conservation lands without required beneficiary compensation.
- This land would no longer be available for sale to benefit public schools and other beneficiaries.



### Proposition 103

#### Estimated Value of Initial Designated Lands:

Urban 142,000 Acres @ \$80,000 avg. value/acre

Rural 427,500 Acres @ \$4,000 avg. value/acre

#### Total Initial Estimated Value:

**\$13,110,000,000 = 16.7%**

#### Unlimited Expansion Authority

- Article X Sections 3(B)(4) & 4(B) created
- 570,000 Acres is only the initial designation
- Gives unlimited expansion authority without any public vote to the:
  - Legislature[3(B)(4)]
  - Any political subdivision [4(B)]



### Proposition 103

#### **AUCTION REQUIREMENT REMOVED**

- Art. X Sec. 3(B)(1) amended to eliminate the public auction requirement for trust land leases. Including:
  - Commercial leases
  - Grazing leases
  - Agricultural leases
  - Homesite leases
- Art. X Sec. 1.1 created: Allows the sale of land designated for conservation purposes to a state agency, county, city or town without advertisement or public auction, provided that the land is restricted against development, used in a manner consistent with conservation and subject to reasonable public access.



### Proposition 103

#### **Land for Right-of-Ways & Easements**

##### **No Longer Auctioned or Sold**

- Art. X Sec. 3(B)(5) created to allows for the disposition of rights-of-way or easements without advertisement or public auction.

#### **All trust lands now subordinate to all political subdivisions**

- Art. X Sec. 4(B) created.
- Trust Land now subordinate to local jurisdictions, regulations, zoning, and development restrictions.
- Effectively Eliminates the State's Super Zoning ability





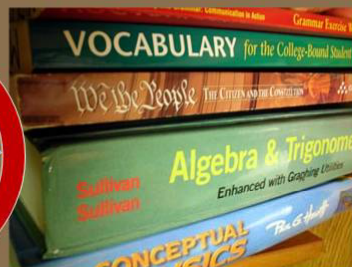
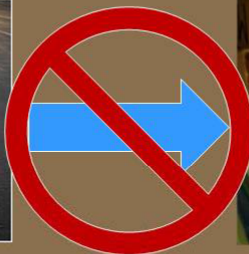
### Proposition 103

#### Cash No Longer Required as Payment On any Sale, Lease, or Transfer

- Art. X Sec. 4(A) amended and Sec. 4(C) created.
- Eliminates the requirement that land is appraised at their true cash value.
- Payments may include anything of "non-monetary value" including participation or infrastructure agreements.
- Items of "non-monetary value" – that might be received later shall be included in the land department appraisal.
- Items of "non-monetary value" cannot be conveyed to the Trust Endowment to be invested, and therefore no profits can be distributed to the beneficiaries.



Items of "non-monetary value" cannot be conveyed to the Trust Endowment to be invested, and therefore no profits can be distributed to the beneficiaries.



## Attorney General's Opinion

by  
JANET NAPOLITANO  
ATTORNEY GENERAL  
August 14, 2002

- **"The United States granted these lands to Arizona in trust for the benefit of the State's common schools and certain other public institutions.** *Kadish v. Ariz. State Land Dep't*, 155 Ariz. 484, 486, 747 P.2d 1183, 1185 (1987)."
- **"The State must manage these lands in the best interests of the trust so that they produce revenues for the trust beneficiaries.** *Princess Plaza Partners v. State*, 187 Ariz. 214, 219 928 P.2d 638, 643 (App. 1995). See also *Deer Valley Unified Sch. Dist. v. Superior Court*, 157 Ariz. 537, 540, 760 P.2d 537, 540 (1988)."
- **"Article X of Arizona Constitution establishes independent fiduciary obligation to manage state trust lands in the best interest of the trust."**



## U.S. Constitution

- The Fifth Amendment to the U.S. Constitution says property cannot be "taken for public use, without just compensation".
- United States v. 564.54 Acres of Monroe and Pike County Land*
- Once there *is* a taking, the Constitution requires just (*i.e.*, full) compensation





## U.S. Supreme Court Per Se Takings

### Penn Central Transportation Co. v. City of New York

- "the extent to which the regulation has interfered with reasonable investment-backed expectations are . . . relevant considerations"

### Agins v. City of Tiburon

- US Supreme Court said land use controls constitute takings, if they deny a property owner "economically viable use of his land."
- Agins criterion creates a categorical rule: **"when the owner of real property has been called upon to sacrifice all economically beneficial uses in the name of the common good, that is, to leave his property economically idle, he has suffered a taking."**



## U.S. Supreme Court Per Se Takings

### Suitum v. Tahoe Regional Planning Agency (1997)

- Regulation "goes too far" and results in a taking "when no productive or economically beneficial use of land is permitted"

### Nollan v. California Coastal Commission

- "If [the government] wants an easement across ... property, it must pay for it."





## *Alaska's Boondoggle*

- In 1978 the Alaska Legislature reclassified the School, University, and Mental Health Trust lands as general state public lands. It allowed municipalities to take ownership of 10% of state public lands within municipal boundaries.
- The University of Alaska first sued to reclaim the lands that the state had specifically transferred from the federally mandated University Land Trust. The loss of income from the Mental Health Trust lands led to immediate lawsuits against the state. On February 27, 1981 the Alaska Supreme Court found in favor of the university.
- The case of *Weiss v State of Alaska* was joined by other beneficiary groups and preceded as a class action suit which ultimately prevailed in the State Supreme Court. The State Supreme Court ordered that the original trust be restored. In 1994 a final settlement reconstructed the Trust with 500,000 acres of original Trust land, 500,000 acres of replacement land, and \$200 million in cash plus a % of general fund revenues in the future.
- ***"State breached its duties as trustee by removing the federal grant lands from the trust"***



## *Questions?*

**THANK YOU**

**Next Quarterly Meeting:**

**Thursday, October 23, 2008 1:30pm**

**[www.AzTreasury.gov](http://www.AzTreasury.gov)**

